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SUBJECT: PREMIER SU DISCUSSES DEFENSE BUDGET AND POLITICAL  
AND ECONOMIC ISSUES WITH THE DIRECTOR

REF: TAIPEI 3234

Classified By: AIT Director Stephen M. Young, Reasons: 1.4 (b/d)

¶1. (S) Summary: During a meeting on September 15, the Director stressed to Premier Su Tseng-chang the importance for Taiwan and U.S.-Taiwan relations of ensuring that the Legislative Yuan (LY) approves a robust defense budget for ¶2007. Responding that he would do his utmost to ensure passage of the defense budget, Su noted that the key to passage is the attitude of the opposition Kuomintang (KMT) and its leader Ma Ying-jeou. Turning to domestic politics, Su confided to the Director that he disagreed with the ruling DPP's decision -- at President Chen's behest -- to mobilize large numbers of supporters to turn out for a rally in support of Chen on September 16. According to Su, the rally would further inflame the movement calling for President Chen to step down, whereas movement participants would gradually tire out if not further stimulated. In addition to demonstrations, Su suggested that Chen may face another crisis when the prosecutor completes his investigation of corruption allegations involving the President and his wife if real wrongdoing is documented. End Summary.

#### The Defense Budget

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¶2. (S) The Director, accompanied by DDIR and notetaker, met with Premier Su Tseng-chang on September 15 to discuss this fall's defense budget process, U.S.-Taiwan relations, and the political situation in Taiwan. The Director laid out U.S. concerns that a major increase in the defense budget was overdue and essential, both for Taiwan's security and to dispel growing concern among friends in the U.S. that Taiwan has lost the will to defend itself.

¶3. (S) Su, accompanied only by an interpreter, welcomed the chance to review the bidding, explaining that he and Defense Minister Lee Jye had carefully prepared a sound budget, which addressed all the issues previously raised by AIT, including both new weapons systems and munitions for new and existing combat platforms. The defense budget proposal has been sent to the LY, which convenes September 19, and Executive Yuan (EY) and ruling Democratic Progressive Party (DPP) support for the budget is very clear. Kuomintang (KMT) Chairman Ma Ying-jeou and LY Speaker Wang Jin-pyng (KMT) have discussed the defense budget and it appears they will allow the budget to pass. However, individual KMT legislators, while supporting P-3Cs, are expressing reservations about some

other arms procurement items, and so the final package is still uncertain.

¶4. (S) While stressing his hope the defense budget would pass smoothly without change, Su recalled the past history of pan-Blue "boycotts" of arms procurement. Su worried that People First Party (PFP) Chairman James Soong still harbors designs to oppose this measure, hoping to leverage his complicated relationship with Ma to force the KMT to block passage. Because the DPP and KMT together can pass the defense budget, the key question is the attitude of the KMT and in particular Chairman Ma. Soong is not strong enough to blackmail Ma, Su argued, but he has used Soong's opposition as an excuse for not allowing the arms procurement package to pass. Clearly, the votes are there if Ma is willing to ignore Soong's machinations. Su urged the DIR to keep pressing Ma to correctly handle this question and pass the defense bill.

¶5. (S) The Director asked whether there is a back-up plan if the pan-Blue began to pick away at the current USD 9.5 billion budget, which represents the agreed 2.85 percent of GDP target for defense spending in calendar year 2007. Su made it clear that he and Defense Minister Lee are committed to maintaining this figure, and will have contingency plans if there are opposition cuts. However, he stressed, the EY cannot even hint there may be a fallback plan at this stage because the pan-Blue would try to manipulate such an opening for their own advantage. Therefore, Su said, he was committed to strongly pushing the current proposal. That said, his body language made it clear that he understood the importance, both for Taiwan's defense and its relations with Washington, of reaching the 2.85 percent figure.

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¶6. (S) Su hinted that, if the regular annual defense budget was reduced by the opposition-controlled LY, the government's fallback position would be to introduce a new supplemental budget proposal that reprogrammed monies cut from specific line items in the regular defense bill, in the interests of maintaining the 2.85% spending level. Su was told the Director would be meeting Defense Minister Lee Jye to follow up on this issue, and promised the Director he would work together with Minister Lee to ensure a full court press on explaining and defending the budget request when the LY convenes on September 19.

¶7. (S) Su asked the Director to clarify press reports here suggesting that the USG will not approve the sale of 66 F-16C/D's until the defense budget is passed. The Director confirmed that Washington wants the Taiwan side to commit to a comprehensive defense modernization as a necessary prerequisite to formally considering the F-16 request. The Director underscored that it is not a foregone conclusion that the White House will approve the F-16's even then. But without the budget passed, there is no desire on America's part to begin the complex determination of whether this sale made sense, for our Taiwan relationship, as well as in terms of the difficulties it would certainly create for U.S. relations with Beijing.

Premier Su on Internal Politics

¶8. (S) Asked to analyze the volatile political situation in light of efforts to force President Chen to step down, Su began by noting two major concerns as we entered into the fall. The first was his anxiety that rival pro and anti-Chen demonstrations over the weekend might erupt into violence. Su was particularly worried that pro-Chen demonstrators pouring into Taipei might cross paths with Shih's crowd, particularly at the Taipei Train Station where Shih's demonstration had been shunted to clear Ketagalan Boulevard for the pro-Chen rally. Su suggested police forces would be up to the challenge, but he was clearly worried that any

clashes would only deepen the divide at a time when tempers needed to cool down. While grouching about Mayor Ma Ying-jeou's supposedly feckless management of security in the city, Su leveled his biggest criticism at Chen himself for exacerbating the situation by provoking the opposition. (Note: Per reftel, the weekend demonstrations turned out to be relatively peaceful, despite some isolated scuffles. End Note.)

¶9. (S) Su then went on to lay out the second concern he has about Taiwan's stability. He suggested that Chen might face a new crisis when the prosecutor pursuing allegations of malfeasance or corruption against Chen himself or his wife Wu Shu-chen completes his investigation, though Chen himself cannot be brought to court because he enjoys presidential immunity. Su declined to elaborate or reveal whether he already had some inside knowledge of the investigation. Nor did he give any timeline for the process, indicating merely that this was in the hands of the prosecutor.

¶10. (S) Su volunteered that he disagreed with the DPP decision to mobilize the party to support the September 16 pro-Chen rally, adding that it was President Chen who wanted the party to mobilize to respond to the ongoing campaign to force him from office. Su said he believed this would merely fuel the anger and resolve of Shih and his largely pan-Blue fellow demonstrators, when what was needed was time to allow passions to cool so that the anti-Chen demonstrators would tire out.

¶11. (S) Su recalled that he had served as DPP Secretary General under the former DPP Chairman Shih Ming-te. Shih is very smart, but had seemingly reached the end of his political career. The anti-Chen movement gives him an unexpected opportunity and a platform, and therefore he will continue his campaign. However, because Shih has no organization himself, it is the pan-Blue and the media under him that provide the organizational force. Su suggested that internal divisions would appear in the movement if care was taken not to provoke Shih and his supporters.

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#### Economic Issues

¶12. (S) Asked about his own plans, Su described some new initiatives to energize the economy in the coming weeks. He specifically mentioned recent internal discussions within the cabinet over a plan to bolster industrial growth and resume financial restructuring this fall. The Director mentioned efforts by Mainland Affairs Council Chairman Joseph Wu to liberalize cross-strait economic ties, which the USG and the Taiwan business community both support. Su gave the impression that he is trying to quietly support this, though very carefully to avoid arousing deep Green opposition. Progress has to be made step by step, he said. The Director also urged Su to support the proposal to set up a consultative council on agriculture and invite a high-level U.S. agricultural official to visit Taiwan in the first part of next year.

#### Comment: Arms Procurement

¶13. (S) On the budget, our problem is not with the Su cabinet, but as the Premier stresses, with ensuring that KMT chief Ma exercises leadership over his fractious caucus in the LY. In particular, Ma has to stare down any effort by James Soong to hold this budget hostage to his political ambitions. Su makes perfect sense in saying his strategy going into the fall is to obtain full passage of the budget as submitted. But he clearly understands the importance of a concrete back-up plan to salvage the 2.85 percent, should the pan-Blues chip away at individual systems like the PAC-III or F-16's, in the give-and-take of the budget process. We will

continue to drive home this point in our meetings with senior officials.

Comment Continued: Domestic Politics

¶14. (S) Though widely rumored in the frenetic Taiwan press, this is the first time Su has shown any distance from President Chen in our private discussions. We can only assume the frustration level has risen sharply in recent weeks, as Chen both enflames his critics and stifles Su from demonstrating more autonomy in managing the government. Su maintained his composure through the discussion, but his words made clear how unhappy he is with the way all of this complicates future prospects both for the DPP and him personally. When we mentioned in passing the premier's likely candidacy for the presidency in 2008, the ever-cautious Su merely raised his eyebrows and moved on. He has clearly set on a policy of seeking to quietly prove his ability to run the government through these troubled days. That includes eschewing any hint of political ambitions at a time when they would only loose a barrage of attacks from the same pan-Blue crowd now so intent on destroying Chen Shui-bian as part of their mission to restore the Kuomintang to power.

YOUNG